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CAP Health Check One Year On

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Report Highlights:
Hungary has established national agencies to govern cross compliance and has prepared Member State (MS) legislation based on the EU mandate during the last couple of years. After introducing the requirements of the Good Agricultural and Environmental Conditions, Hungary began applying and enforcing the “A” tier of the Statutory Management Requirements from January 1, 2009. The use of the Article 68 budget which gives liberty for the Member State to use 10% of the direct payments to support its agricultural areas in crisis began in 2010.

General Information:
Modulation

In 2012 Hungary will be impacted by the redirection of farm support payments to Rural Development funds. Ministry of Agriculture sources described the calculable number of farms affected by progressive modulation and the estimated reduction in support payments as "minimal." Hungary is satisfied with the reduction of the originally proposed modulation percentages, and supported the lower limit of farm size eligible for support payments (0.3 ha or 100 €) proposed by Portugal, Hungary and Slovenia during the course of the Health Check (HC) process. Maintaining this lower limit may keep more than 10,000 small producers in the CAP system in Hungary.

Cross Compliance

Hungary established two national agencies to govern the fiscal processes, and management of Cross Compliance after its 2004 accession. The concepts of Good Agricultural and Environmental Conditions (GAEC) have been followed by Hungary since 2003; however, the MS level legal regulation was only promulgated in 2008 as 50/2008 (IV. 24.), Order of the Minister of Agriculture and Rural Development.

Following is the time table for the institution of the Statutory Management Requirements (SMRs) of Cross Compliance in Hungary. On January 1, 2009, Hungary began applying and enforcing the "A" package (1-8a) of the SMRs. These cover the Protection of Nature; Protection of Environment: Identification and Records of Animals. From January 1, 2011, Hungary plans to implement the requirements of the "B" package (9-15) (General requirements of approval, distribution, and use of plant protection chemicals; Use of hormones in animal production; Food and feed safety, and traceability; and Animal health prevention.) and from 2013 the "C" package (16) (Animal welfare).

Hungary continues to devote significant efforts to educating farmers on cross compliance and updating the domestic legislation governing these issues. Hungary is satisfied with the time concessions (derogations) given to new MSs in enforcing some of the requirements (e.g. animal welfare requirements, beginning only in 2013).

Article 68.

The HC allows Member States to grant assistance for sectors coping with special problems. The source of the so-called Article 68 measures comes from the national support budget. Member States may retain 10% of the annual direct payments for this purpose.

Hungary welcomed the formula of the HC by which the retained sum for new Member States will be calculated as 10% of the full (100%) support level they will receive in 2013. In accordance with another HC decision, Hungary is eligible to spend one third of the Article 68 budget as "coupled" support for the corresponding commodities (e.g. rice, dried fodder, nuts and protein crops) during a prolonged period until 2012.

According to recent information Hungary plans to spend 3.5% (€ 46 million) of the 10% Article 68 formula on (coupled) support for the dairy sector. The basis of the distribution of the subsidy is the volume (kilogram) of unprocessed milk sold for consumers, processors or export. The order of the Ministry of Agriculture and Rural Development (MARD) governing this program will be released later in March or early April, 2010.

Other programs earmarked for the other 6.5% of Article 68 are (decoupled) subsidies for helping structural changes of labor intensive sectors of agriculture, namely tobacco, and fruit and vegetable for the production of other products. The GOH plans to spend € 22 million (1.68%) and € 9 million (0.68%) for the two restructuring programs respectively until 2013. Farms participating in the programs must keep the affected area in agricultural production and maintain the employment level of the starting year in the course of the three year restructuring program. The MARD regulation governing these restructuring programs is to be released later this spring.

Above Article 68 programs cover only 5.8 % of the 10 % opportunities, but there are a couple of difficulties hampering the smooth adoption of the Article 68 formula in Hungary.
One is lagging administrative (legislative) work. Heated political debates in Parliament during the current economic crisis just ahead of the April 11, 2010 parliamentary elections have slowed the legislative process to a crawl. The second limiting factor is the insufficient budgetary resources for Member State contributions to programs due to austerity measures implemented to cope with the economic crisis. The third hardship is the planned but stalled change to the current Single Area Payment System to the Single Farm Payment (SFP) [Single Payment System – SPS in Hungary]. The change to the system of support payment has become a political issue during the last few years. The debate between the land owners and tenants who cultivate a great portion of the arable land and between the political groups representing these two factions became a major issue in domestic politics. The stalemate blocked legislation to introduce the SPS in January 2009 as originally planned. The file was sent for review by the Constitution Court some time ago and is still awaiting a decision. Because of the momentum lost, the SPS could not be introduced in January 2010 either.

The core of the confrontation is that the majority of agricultural land belongs to non-farm owners or inactive, old proprietors in a “patchwork” of small parcels. Many large fields are not even divided among owners by survey (“undivided common ownership”). This land ownership pattern is the outcome of Hungary’s Restitution Program and Cooperative Restructuring Program in the early 1990’s. Tenants who cultivate large part of the agricultural land under leasing contract are corporations or private investors who privatized the assets of old-fashioned agricultural cooperatives or state farms, excluding the land. (Agricultural land may be owned only natural persons [vs. legal entities] in Hungary) Many land owners are afraid of losing the value of their land if the right for EU farm payment will exclusively belong to the tenant (the user of the land). According to the present draft of the Single Payment System, the basis year would be 2006. Farmers who were entitled to direct payment in 2006 would be qualified to receive decoupled support under the SPS. Opponents of the change for SPS question the future of starting young farmers, and land without CAP payment qualification.